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# UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s

## Issues of diversification of African economies, specifically the establishment of a diversification fund for Africa's commodities

## Report of the Secretary-General

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# I. BACKGROUND

1. Pursuant to a request in paragraph 35 of the United Nations New Agenda for the Development of Africa in the 1990s (General Assembly resolution 46/151, annex, sect. II), the Secretary-General submitted to the General Assembly at its forty-eighth session a report prepared by the Food and Agriculture Organization of the United Nations (FAO) on the need for and feasibility of the establishment of a diversification fund for Africa's commodities (A/48/335). In that report was recommended the establishment of a diversification facility, to finance the preparatory phase of diversification projects and programmes, and the establishment of diversification councils at the national level, to generate a stream of project proposals that would fit into national diversification programmes and priorities.

2. After considering those proposals, the General Assembly, in its resolution 48/214 concerning the implementation of the United Nations New Agenda for the Development of Africa in the 1990s, inter alia, requested the Secretary-General to prepare background documents for intensive consultations involving concerned and interested States, together with relevant financial institutions and United Nations organizations, and addressing the full range of issues related to the diversification of African economies, with particular attention to the issues outlined in paragraphs 14, 15 and 16 of the resolution, namely:

(a) The importance that the Secretary-General, Africa and an increasing number of countries attach to the necessity of the proposed establishment and operationalization of a diversification fund for Africa's commodities;

(b) The need, in developing diversification projects and programmes, to make full and effective use of existing funding mechanisms;

(c) The need to fill gaps that may exist in the funding available for diversification of related activities in Africa.

3. As a follow-up to that resolution, the Secretary-General requested relevant financial institutions and United Nations organizations to provide inputs and views on the issues concerning the establishment and operation of the proposed diversification facility, with particular reference to paragraphs 14, 15 and 16 of the resolution. The replies received are contained in the annex to the present report.

4. The main purpose of the present document is to respond to the specific issues mentioned in paragraphs 13 to 17 of resolution 48/214, and to clarify and amplify certain other aspects of the proposal presented in the earlier report (A/48/335). The need and the potential for diversification for Africa's commodities are not dealt with, as these subjects have been discussed in sections IV and V of that report.

5. The issues related to the diversification of African economies are considered in section II, with particular reference to the diversification of the commodity sector. In section III, certain issues relating to the establishment and operation of the proposed diversification facility are

clarified and amplified, bearing in mind resolution 48/214 and comments made by Member States, during the forty-eighth session of the General Assembly, and by international organizations. In the light of those, a streamlined proposal is submitted in section IV for consideration. In the final section, possible follow-up is suggested for consideration by Member States.

## II. ISSUES RELATED TO THE DIVERSIFICATION OF AFRICAN ECONOMIES, WITH PARTICULAR REFERENCE TO THE DIVERSIFICATION OF THE COMMODITY SECTOR

6. General Assembly resolution 48/214 specifically refers to addressing the full range of issues related to the diversification of African economies. The wider question of the diversification of African economies is intrinsically linked to the overall problem of African economic recovery and development. Over the past 25 years or so, most countries of Africa have experienced a deepening crisis. The internal and external factors behind Africa's economic and social decline are well known, and need not be repeated here (see A/48/335, paras. 8-17).

7. In recent years, a broad consensus has emerged on the main agenda for African development, the result of a continuing interchange and evolution of ideas among African countries and between them and the international community. Important landmarks in this process have been the Lagos Plan of Action 1/ adopted in 1980, the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (General Assembly resolution S/13-2, annex), the 1989 report of the Economic Commission for Africa, entitled "African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation" 2/ and the United Nations New Agenda for the Development of Africa in the 1990s. The World Bank's long-term perspective study Sub-Saharan Africa, from Crisis to Sustainable Growth, of 1989, and the 1987 study Adjustment with a Human Face, 3/ prepared for the United Nations Children's Fund (UNICEF), have also provided a valuable input in this process of consensus-building.

8. In these and various other studies, the issues involved in the diversification of African economies have been analysed in considerable depth. In the present report, it is not possible for want of space to deal fully with these complex issues. What is therefore attempted in the following paragraphs is to highlight the main areas where action is needed for the development and diversification of African economies.

9. First is the need to achieve a balance in the macroeconomic situation, reduce regulatory controls and strengthen the role of market mechanisms. Two thirds of African countries have introduced structural adjustment programmes with these objectives. Results achieved so far have varied from country to country. None the less, macroeconomic reforms need to be pursued. At the same time, in order to inspire long-term commitment, they need to be adequately internalized, by means of increasing reliance on local capacity in their design and implementation. They also need to go beyond achieving only macroeconomic balance, by taking fuller account of investment needs to promote growth, of the

requirements to diversify production and exports, of measures to ensure sustainability, and of the social impact of reforms.

10. African countries also need to foster the enabling environment in which economic growth and productive activities can flourish. This requires effective implementation of incentive policies to promote entrepreneurship and the establishment of an appropriate legal framework. Of equal importance is the development of well-functioning credit systems and capital markets in order to encourage savings and facilitate investments in productive activities. In many countries, it is necessary to strengthen administrative services that are essential for implementing policies, programmes and projects.

11. It is also crucial to improve the physical infrastructure of roads, ports and other services. Over the years, infrastructure facilities have deteriorated markedly in many African countries. High priority will therefore have to be given for a long time, particularly, to rehabilitating neglected infrastructure and, where necessary, investing in new facilities in critical areas.

12. The development of human capital, i.e., investment in people, is also of basic importance. Diversification of economies entails adoption of new ideas and technologies. This, in turn, requires trained technical manpower and personnel with managerial skills. It is also necessary to strengthen research and training institutions. The need to draw upon the indigenous entrepreneurship and to use the existing trained manpower to the maximum extent cannot be overemphasized.

13. In accelerating economic growth and seizing the opportunities for new productive activities, the private sector has a pivotal role. The role and vitality of African entrepreneurship, especially in the informal sector, need to be fostered by removing unnecessary restrictive regulations and controls and by improving access to credit and markets.

14. For diversifying African economies, a more rapid progress towards regional cooperation and integration is essential, since few countries in Africa have a big enough domestic market to achieve necessary economies of scale to be competitive. There is considerable scope for encouraging regional trade in agricultural products. The potential for increased cooperation in natural management, health, education, food security, science and technology and research is also vast.

15. Success for the efforts to create an enabling environment for economic growth also requires a favourable political context. Investments in productive activities cannot take place unless producers and investors have confidence in the stability of policies, in fair and efficient administrative services and in the legal framework. Achieving peace and stability is a vital prerequisite for economic growth in several parts.

16. It is clear that considerable resources will be required to overcome the grave problems faced by Africa. A large part of those resources has to come from domestic sources, but the role of external financial resources is crucial. The prospects for foreign direct investments in and non-concessional flows of resources to most low income African countries are, on the whole, not

encouraging. Hence, the realistic chance to obtain non-debt-creating external resources is through increased net flows of official development assistance (ODA). Greater efforts are also needed to deal with the debt issue more decisively and effectively. Equally important is to put the aid programmes in a longer-term time framework, so that the needed institutions can be strengthened and local capabilities developed.

17. Finally, for sustained economic growth, African countries must earn foreign exchange in order to pay for essential imports. The role of both regional and global trade is thus vital. Prospects for significant increases in world prices of most primary commodities exported by African countries are generally poor, however, so that higher export earnings will depend on increased sales abroad and horizontal and vertical diversification of the commodity sector.

18. The need for diversification of the African commodity sector is well recognized. Africa relies on too few commodities for its export earnings; exports of those commodities have been stagnant and for the most part offer little prospect for growth. Diversification of commodity production and exports is the most effective way of protecting an economy from the impact of large fluctuations in individual commodity prices and in the terms of trade. Commodity diversification can also contribute positively to reducing environmental stress and improving food security by raising employment and incomes.

19. Commodity diversification, although not a cure-all, is an important integral part of promoting diversification of the economy as a whole. However, to be effective, commodity diversification has to be firmly anchored in the actions being taken also in the other areas discussed above. The proposal for a diversification facility for Africa's commodity sector should be viewed in this wider context.

## III. ISSUES CONCERNING THE ESTABLISHMENT AND OPERATIONS OF A DIVERSIFICATION FUND FOR AFRICA'S COMMODITIES

20. A number of issues concerning the establishment and operations of a diversification facility for Africa's commodities were raised during the discussion at the forty-eighth session of the General Assembly, including those mentioned in resolution 48/214. Moreover, some aspects have been referred to in the comments received from the international organizations. Those issues are addressed below under the following headings:

(a) Existing funding arrangements;

(b) Need to fill the gap in existing funding arrangements for preparing diversification projects;

(c) Making full and effective use of existing financing arrangements;

(d) Making full use of the expertise and experience of United Nations organizations;

(e) Role of the private sector;

(f) Avoiding proliferation of bureaucracy and minimizing administrative costs;

(g) Role and functioning of the national diversification councils;

(h) Location of the diversification facility;

(i) Resources of the diversification facility.

Existing funding arrangements

21. A number of mechanisms are available for financing technically and economically sound diversification projects (see A/48/335, sect. VII). They include the World Bank, the African Development Bank (ADB), the Common Fund for Commodities, the European Fund and the European Investment Bank. Some diversification activities have also benefited from bilateral programmes such as STABEX under the Lomé Conventions and the Swiss Compensatory Financing Programme. In addition, there are sources of financing private sector development such as the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency under the World Bank. The African Development Bank has also developed a number of ways of assisting the private sector through, for instance, its Private Sector Development Unit.

22. It is important to note that the above-mentioned sources of financing are available for funding projects that have been fully developed. There is general consensus that there is no shortage of financing for technically and economically viable projects, but the present level of resources devoted to diversification projects and programmes in Africa is not adequate. In view of this, the international community has called for an expansion of resources to finance diversification projects and programmes (see General Assembly resolution 45/200, para. 7, and the Final Act of the seventh session of the United Nations Conference on Trade and Development, para. 82 4/).

23. This apparent paradox, the existence of funding mechanisms and the availability of financial resources on the one hand and the low level of actual financing of diversification projects on the other, seems to be due to two factors. First, there is a gap in the available development assistance for preparing technically and economically sound diversification projects, attractive to investors. This gap exists particularly for projects by small and medium-sized entrepreneurs in Africa. Secondly, there is a lack of a focal point for channelling and galvanizing assistance in the priority area of commodity diversification, despite the importance attached to it.

24. It may be noted that ADB provides funding and technical assistance for the preparation of development projects by its regional member countries. The African Project Development Facility (APDF), which is jointly sponsored by the United Nations Development Programme (UNDP), ADB and IFC, also assists private entrepreneurs in sub-Saharan Africa in identifying and preparing projects in the range of $0.5 million to $5 million. Technical assistance for project preparation is provided by some United Nations organizations, such as FAO and

the United Nations Industrial Development Organization (UNIDO). Some other programmes, such as the Centre for the Development of Industry run jointly by the African, Caribbean and Pacific countries and the European Community, and the Commonwealth Fund for Technical Cooperation help with project identification and preparation and contacts with investors. Assistance for project preparation is also provided by some bilateral aid programmes. The assistance provided for project preparation by those organizations does play a useful role, but it is relatively small and covers the entire project spectrum; it is not focused on diversification projects per se.

Need to fill the gap in existing funding arrangements for preparing diversification projects

25. The establishment of a facility for financing the pre-investment phase activities (i.e., identification, preparation and appraisal) of commodity diversification projects is intended to fill the gap in available assistance for project preparation in the priority area of commodity diversification in Africa. It can also provide a clear focal point for channelling and increasing assistance from existing financing mechanisms for diversification projects in Africa.

26. In its resolution 48/214, the General Assembly stressed the importance that Africa and a number of countries attach to the establishment of a diversification facility for Africa's commodities. Its usefulness has also been underlined by the panel of high-level personalities on African development and by several international organizations. The panel of high-level personalities, at its meeting in December 1993, observed, inter alia: "The Panel is of the view that the proposed facility would be of practical importance for individual African countries to promote pre-investment projects, and could serve as a focal point for the diversification efforts of African countries, assuming that this activity is undertaken in the context of reasonably sound overall economic management" (A/48/335/Add.2).

27. The World Bank, in its comments on the proposal for diversification fund, has, inter alia, observed: "We cannot be sure, however, that all parties keen to engage in diversification and all categories of needs are adequately served by existing mechanisms, especially in the case of small and medium-sized African entrepreneurs. We are therefore not opposed to the creation of a special fund housed in the African Development Bank, as proposed, provided that it is kept modest and responds exclusively to private sector needs" (see annex).

28. Similarly, ADB has observed, inter alia: "the establishment of a diversification fund and, as important, the establishment of national diversification councils, in line with the recommendations of the FAO report, could ... provide a needed focus and stimulus towards greater national commitment and effort for the preparation of diversification projects (see annex).

29. UNCTAD has also stressed the useful role that a diversification fund for Africa can play. In its view, "financial and technical assistance is required for pre-feasibility, feasibility and market studies, for the identification of economically viable diversification projects attractive to investors as well as

for the creation of a domestic supportive environment, including development-related infrastructure and human resources ... In this regard, the establishment of a diversification fund for Africa's commodities would be a concrete expression by the international community of a commitment to provide such financial assistance (see annex).

Making full and effective use of existing financing arrangements

30. It is indeed very important to ensure that the operations of a diversification facility for Africa's commodities do not duplicate the efforts already undertaken by existing financing arrangements, but make full and effective use of those mechanisms. The diversification facility as envisaged would not duplicate the efforts of existing financing arrangements, as it will finance only the pre-investment phase activities (i.e. identification, preparation and appraisal) of diversification projects, and not the actual implementation of such projects, once they are fully developed. The financing of the fully developed projects will be left to the existing financing mechanisms, such as the World Bank, ADB, the Common Fund for Commodities and other multilateral and bilateral programmes, such as the European Fund and the European Investment Bank, and other private funding sources.

31. In order to ensure hat the diversification projects prepared with the assistance of the diversification facility are eligible for financing by multilateral and bilateral agencies, it is suggested that such projects should be prepared following the modalities, procedures and standards of a multilateral financing institution. In this way, it would be possible to avoid duplication of efforts and also to make full and effective use of existing financing mechanisms for galvanizing resources for diversification projects.

32. In this context, it may be noted that the Common Fund for Commodities has observed that it could "play a useful role as a catalyst for, inter alia, pre-investment action, within the context of the diversification fund for Africa's commodities, at a low overhead cost to the facility" (see annex). The Common Fund envisages a number of possible avenues of combining its efforts with the diversification facility, should the international community decide to establish it. It considers that it would be particularly suitable for those diversification activities which focus on specific commodities for a group of countries, taking into account the global market situation and prospects, and for developing new end-uses for products. The Common Fund has also indicated its readiness to combine its efforts with other donor agencies, under an existing focal institution playing a central role, in order to address the pressing needs of the African countries and to attain a specific diversification goal.

Making full use of the expertise and experience of United Nations organizations

33. It is equally important that the proposed diversification facility should make full and effective use of the expertise and experience of the concerned United Nations organizations, for example, FAO in the diversification of the agriculture, fishery and forestry sectors, UNIDO in industrial development, the Common Fund for Commodities in commodity studies and the UNCTAD/GATT International Trade Centre in marketing surveys and marketing information

networks. In this connection, the establishment of an inter-agency committee to work in close collaboration with the diversification facility, along the lines already suggested (A/48/335, para. 60), could be very helpful. In view of the important contribution that the Common Fund for Commodities could make in the operations of the diversification fund, it would be most appropriate that it should also be a member of such an inter-agency committee.

34. The proposed inter-agency committee would provide a valuable forum for extending support and advice in relation to the technical aspects of the diversification projects being prepared under the diversification facility. It will also encourage the facility to draw on the technical advice and expertise of individual member organizations.

Role of the private sector

35. It is clear that the success of any commodity diversification programme or project would crucially depend on the ability to identify and seize promptly new market opportunities which continuously arise as a result of changes in consumer demands and in technologies of production, processing and marketing. In this respect, the role of the private sector is very important. Private entrepreneurs are in the best position to perceive and capture emerging market opportunities, identify profit possibilities in new diversification activities, invest resources and take risks in trying out new products and technologies.

36. It is, therefore, essential to ensure that the proposed diversification facility promotes and supports initiatives by the private sector in identifying diversification opportunities and developing economically and technically sound projects for eventual funding by appropriate financing mechanisms. Hence, it is envisaged that the private sector should play a prominent role in the diversification facility and the national diversification councils. In this way, the activities supported by the facility would be demand-driven, i.e., they would respond to the needs identified at the country level, especially by the private entrepreneurs.

Avoiding proliferation of bureaucracy and minimizing administrative costs

37. Equally important is the need to ensure that the resources made available to the proposed diversification facility are not frittered away in creating a large and costly bureaucracy to run it, but are devoted to the maximum extent to providing direct assistance to diversification projects and programmes in African countries.

38. In view of this important consideration, it is not proposed that a new organization with a large bureaucracy should be created to administer the diversification facility. Instead, it is suggested that a diversification facility be set up in an already existing financing institution (A/48/335, para. 51). Such an arrangement would need only a small secretariat and keep the overhead supporting costs to the minimum. The administrative costs of the proposed national diversification councils would also be small as their secretariats would be manned by personnel recruited locally and the costs could largely be met from resources raised locally. The resources provided by the

diversification facility would be used primarily to prepare diversification projects at the country level.

Role and functioning of the national diversification councils

39. It may be noted that in General Assembly resolution 48/214 African countries are encouraged to establish national diversification councils, including representatives from the Government and the private sector.

40. National diversification councils working in close collaboration with the diversification facility located in an existing financing institution would have several advantages. The councils would promote dialogue and exchange of information between the private sector and the Government on diversification opportunities; identify, with the help of the private sector, diversification project ideas, on the basis of which diversification project proposals could be generated for eventual funding by the financing institutions; and use local knowledge and expertise and thereby build local capacity in developing diversification projects and programmes.

41. Above all, a national diversification council would provide a valuable focal point at the country level for the private sector and the Government to work together to assess diversification opportunities in the light of local resources, human capital, infrastructure and technology. At present there is a lack of such a forum in most countries of Africa, despite the acknowledged importance of commodity diversification in promoting economic growth.

42. It is of the utmost importance to ensure that the councils do not act as a barrier to private sector initiatives. Instead, they must encourage private sector efforts, especially by the small and medium-sized entrepreneurs, to identify diversification opportunities and find project ideas, which could be developed into project proposals.

43. It is, however, inevitable that many of the ideas that may be forthcoming may not be technically and economically viable. The councils will therefore have to separate the viable ideas from the others; otherwise this task would fall to the small secretariat of the centrally located diversification facility and place an unmanageable load on it. Moreover, the central secretariat would not have the benefit of the local knowledge and expertise required for the selection.

44. The initial process of separating the viable from the non-viable by the councils will have to be undertaken in an open and democratic manner, so that decisions are transparent and are based on objective and professional criteria.

45. It is envisaged (A/48/335, para. 67), that the project development work under the national diversification councils would be supported by the central diversification facility by making funds available as grant up to agreed limits. In this connection it must be stressed that such funds would be released by the central diversification facility only in tranches and in accordance with the progress of the preparatory work for the project. Moreover, the use of those funds would be subject to the usual rules and regulations applicable to the accounting and auditing of externally provided funds.

Location of the diversification facility

46. There are a number of reasons for the proposal to locate the diversification facility in the African Development Bank (A/48/335, para. 54). ADB is located in Africa, and it has been established as the regional bank to serve the needs of African countries. It enjoys close links with the World Bank, UNDP, the specialized agencies of the United Nations system, and the bilateral donors. ADB has also developed a number of ways of assisting the private sector through, for instance, its Private Sector Development Unit.

47. The location of the proposed diversification facility in ADB has been favoured by the panel of high-level personalities on African development (see A/48/335/Add.2). The World Bank has also supported the housing of the facility in ADB.

48. The Common Fund for Commodities considers that, while the provision of specific operational resources, with a direct focus on Africa, will enable it to expand its assistance in the diversification programme for Africa, such a proposal does not call for the establishment of a diversification facility in the Common Fund but for an allocation of part of the resources of the facility to the Common Fund. As discussed above, the Common Fund envisages a number of ways in which it can collaborate with the diversification facility for Africa's commodities.

Resources of the diversification facility

49. It is proposed (A/48/335, para. 56) that the resources of the diversification facility would be provided by bilateral donors on a voluntary basis. In addition, multilateral financing institutions would be invited to contribute to its resources. As the facility would finance the preparation of projects mostly on a grant basis, it would be necessary to replenish its resources periodically.

50. It was proposed that the diversification facility be established with resources of US$ 50-75 million for an initial period of three to four years. This level of resources was considered large enough to provide the necessary stimulus to diversification programmes and projects in Africa and still be within the absorptive capacity of the countries.

51. The optimum level of resources for a diversification facility cannot be determined precisely in advance. It may be noted that ADB, while indicating its willingness to consider administering the facility, believes that, as first step, it is necessary to obtain a firm commitment from the international community on a "threshold" level of resources, with the goal of eventually meeting the target of $50-75 million. The World Bank has also observed that the optimum allocation for a diversification fund for Africa has to arise from experience, which points to the need to start modestly.

## IV. A STREAMLINED PROPOSAL FOR A DIVERSIFICATION FACILITY FOR AFRICA'S COMMODITIES

52. In the light of the views expressed by Member States and United Nations organizations and international financing institutions, a streamlined proposal for a diversification facility for Africa's commodities is set out below for consideration.

53. It is suggested that a diversification facility for Africa's commodities be established in the African Development Bank for an initial period of three to four years, with resources of about US$ 50-75 million to provide assistance for the preparation of commodity diversification programmes and projects. In considering the level of resources of the facility, Member States may wish to keep in view the aspects referred to in paragraphs 50 and 51 above.

54. Further, it is proposed that diversification councils be established at the national level, comprising representatives of Government and the private sector, in order to generate a stream of project proposals. Selected members of the scientific community and representatives of international organizations could also be invited to support the work of the national diversification councils, which would work in close collaboration with the diversification facility.

55. Possible objectives, functions, methods of procedure and criteria for selection of projects are set out below for consideration.

### Diversification facility for Africa's commodities

56. The basic objective of the proposed facility would be to promote the diversification of the African commodity sector by financing the preparation of technically and economically viable diversification projects. All countries that are regional members of ADB would have access to the facility. The resources of the facility could be raised from bilateral donors on a voluntary basis; multilateral financing institutions could also contribute to its resources. The facility could be established initially for a period of three to four years, with a full review of its working taking place in the third or fourth year of its operations so as to decide on its extension and the replenishment of its resources for a further period.

### Objectives

57. The broad objectives of the facility could include (a) the development of the African commodity sector through diversification programmes and projects utilizing local skills, initiatives and enterprise to the maximum extent; (b) strengthening the partnership between the public and private sectors for the development and diversification of the commodity sector; (c) contributing to poverty alleviation by concentrating efforts on commodity diversification by smaller producers; and (d) helping to develop Africa's human and institutional capacities in the commodity sector.

Functions

58. The functions of the facility could be (a) to finance, in response to requests received from and in close collaboration with national diversification councils, the pre-investment phase (i.e. identification, preparation and appraisal) of projects with a view to developing full project documents eligible for financing by ADB and other multilateral financing agencies, and by bilateral sources; (b) to assist in seeking financing for the implementation of the diversification projects from multilateral and bilateral financing agencies and from private sources, both local and foreign; (c) to disseminate information on diversification projects with a view to avoiding the risk of projects being promoted on the same commodity for the same market in several countries simultaneously; and (d) to promote exchange of information and experiences in commodity diversification among African countries, with particular reference to successful cases.

Methods of procedure

59. The facility could be administered by the African Development Bank. The methods of procedure of ADB would be followed in preparing the projects, so as to ensure their suitability for financing by multilateral financing institutions, such as ADB and the World Bank, and by other entities, including the private commercial banks and bilateral donors.

60. Close collaboration in the operations of the facility among ADB, the World Bank and other concerned multilateral organizations would be highly desirable. For this purpose, an inter-agency committee could be established (including the United Nations, ADB, the World Bank, UNDP, FAO, UNIDO, the Common Fund for Commodities and UNCTAD) so that the experience and expertise of the United Nations system could be made available to the facility.

61. A small secretariat for the facility would be needed, which could be provided by ADB. The secretariat would prepare, inter alia, a model set of procedures and pro-forma to be followed for project preparation. It would maintain close contacts with the national diversification councils, and arrange for technical backstopping of project preparation as required. The secretariat would prepare annual reports on the working of the facility to be sent to member Governments and donors. The secretariat would assist in identifying possible funding sources to finance the projects when they are fully developed.

Criteria

62. In selecting the diversification project proposals for financing their pre-investment phase, the following criteria could be used: (a) projects should involve the sustainable diversification of the commodity sector, including agriculture, fisheries, forestry and minerals (excluding fuels); (b) projects should promote horizontal diversification (into other commodities); vertical diversification (into the processing of commodities); or new end-uses; (c) projects should involve the private sector to the maximum extent possible, particularly smaller producers and processors; and (d) projects should take into account environmental considerations and should contribute to developing human

capacities and alleviating poverty by increasing incomes and employment opportunities.

National diversification councils

63. In order to be sustainable, diversification should be based on national-level initiatives, particularly of the private sector, backed up by government commitment and supported by external assistance. The work of the proposed diversification facility for Africa's commodities would benefit considerably if it were accompanied by a strong network of national-level bodies (a) to foster dialogue and active cooperation between the private sector and the Government in identifying diversification opportunities; (b) to generate the flow of diversification project ideas; and (c) to assess the economic and technical viability of project ideas, using objective and professional criteria, with a view to identifying those suitable for further elaboration as projects. The setting up of diversification bodies at the national level would also help in capacity-building in the countries of the region. It is therefore suggested that consideration be given to establishing a network of national diversification councils to work in close collaboration with the diversification facility. The possibility of using existing national-level bodies which can undertake such functions should also be explored.

64. The proposed national diversification councils could include representatives of the main ministries concerned and representatives of the private sector. Selected technical experts in scientific disciplines and representatives of multilateral organizations could also be invited to help in the work of the councils. Each council would be assisted by a small locally recruited secretariat.

65. The functions of the councils could include (a) fostering dialogue and information sharing between the Governments and the private sector and promoting the adoption of policies and programmes designed to encourage diversification; (b) encouraging the private sector to identify opportunities for diversification - horizontal, vertical and new end-uses; (c) undertaking preliminary assessment of the economic and technical viability of the identified diversification ideas in relation to domestic market needs, the possibilities of intra-regional trade and the prospects for exports to international markets; and (d) assisting the private sector in the preparation and appraisal of diversification projects, taking into account the structural, institutional, infrastructural and human resource situation of the country.

66. In order to support the project preparatory work by the private sector under the councils, the diversification facility would make available an amount not exceeding an agreed limit as grant over a three- to four-year period. This amount would be released in tranches in accordance with the progress of the preparatory work.

67. In the project preparation work, the councils would encourage the use, to the maximum extent possible, of local consultants and institutions so as to build up local capacity. They would also ensure that the project procedures and standards of ADB are followed so that the projects would be eligible for financing by multilateral financing institutions and others. The usual rules

and regulations concerning accounting and auditing applicable to the use of external funds will be followed in respect of the resources made available by the facility.

68. The project documents prepared under the auspices of the national diversification councils would be transmitted to the facility, which would assist in seeking financing for their implementation.

## V. POSSIBLE FOLLOW-UP

69. If the General Assembly agrees in principle to establish the diversification facility for Africa's commodities along the lines discussed in section IV above, it may wish to request the Secretary-General:

(a) To invite Member States and relevant international organizations to contribute to the resources of the facility;

(b) To request the African Development Bank to initiate consultations within its various organs with a view to setting up the facility;

(c) To convene, no later than 31 December 1994, a meeting of the inter-agency committee of relevant multilateral financing institutions and United Nations organizations to consider the modus operandi of the diversification facility as prepared by the African Development Bank.

## Notes

1/ A/S-11/14, annex I.

2/ A/44/315, annex.

3/ G. Andrea Cornia, Richard Jolly and Frances Stewart, eds., Adjustment with a Human Face (Oxford, Clarendon Press, 1987).

4/ Proceedings of the United Nations Conference on Trade and Development, Seventh Session, vol. I, Report and Annexes (United Nations publication, Sales No. E.88.II.D.1), part one, sect. A.1.

Annex

VIEWS, COMMENTS AND INPUTS BY ORGANIZATIONS ON THE ISSUES OF DIVERSIFICATION OF AFRICAN ECONOMIES, SPECIFICALLY THE ESTABLISHMENT OF A DIVERSIFICATION FUND FOR AFRICA'S COMMODITIES

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

[Original: English]

[10 February 1994]

1. It is well recognized that, given the urgent need to diversify and the magnitude of the task involved, additional concerted actions are needed to support the diversification efforts of African countries. It is also clear that at the country level these efforts should involve a policy approach, with the Government providing a framework of strategies and supportive policies, while the implementation of diversification activities remains mainly in the hands of private entrepreneurs.

2. We also know that there is no unique blueprint for promoting diversification efforts. Rather decisions on diversification are necessarily country-specific and must be adapted to the long-term comparative advantages of a country's natural resource base, human capital and economy. However, the experience of developing countries where diversification activities have been successfully initiated and developed clearly shows that this was possible owing to a combination of various interrelated factors and external and domestic conditions. In this connection it should be noted that while certain basic factors such as natural resources endowment, geophysical and climatic characteristics and size of the domestic market of a country set certain limits to the development of diversification activities, they are not decisive barriers, but rather obstacles to be circumvented. What seems to be common to all successful diversification experiences is that they benefited from deliberately conducive government policies backed by appropriate legislative and other supportive measures, encouraging the initiative of private investors, both domestic and foreign. a/

3. Thus, at this juncture one of the most important gaps the international community can fill through its financial and technical assistance is the identification of viable opportunities for domestic and foreign investors and the policy framework for supporting these. Financial and technical assistance is required for pre-feasibility, feasibility and market studies, for the identification of economically viable diversification projects attractive to investors as well as for the creation of a domestic supportive environment, including development-related infrastructure and human resources. African countries urgently need finance not only for investment in diversification projects, which should primarily come from the private sector, but also to cover all other costs from the initial step of identifying a project right through to the production and distribution stage. In this regard, the establishment of a diversification fund for Africa's commodities would be a concrete expression by

the international community of a commitment to provide such financial assistance. A diversification fund thus could be a focal point not only to provide additional finance but also to galvanize technical assistance required for the development and implementation of diversification programmes and projects.

4. It is important that the fund follow the progress of projects initiated and developed under its auspices through to execution. Without this, there is a high risk of project profiles ending up in bottom drawers, as so often happens today. Monitoring further stages by the fund should help to ensure that some action is taken and provide a dynamic way of improving project design. As one of the objectives of the fund consists of the involvement of both local and foreign private entrepreneurs as investors in and implementators of projects, the fund should push projects with both international financial agencies and the private sector. While it may seem that projects submitted for financing from international organizations may not need a monitoring mechanism, if one of the objectives is involvement of private entrepreneurs inside and outside of the beneficiary country, then following up on what happens after a project idea is developed seems necessary. This should include promoting private investment and joint projects between local and foreign entrepreneurs and with financial agencies. Also, overseas investors, including those from small and medium-sized enterprises, often need to be made aware of opportunities for investment - and at as early a stage of development of the project profile as possible.

5. The responsibilities of the fund should also include the duty of checking the consistency of projects over countries. It is likely to be counter-productive for many countries to diversify into the same specific sector, especially if the output is destined for the same export market. The problem of competing entrants or mutually inconsistent diversification is becoming increasingly serious, especially in respect to increasing diversification within the range of traditional commodities. While it is clear that the central secretariat cannot, and should not, stop any project, it could alert national diversification councils and potential investors about the market situation and bring to their attention that projects on the same commodity are being pushed in several countries simultaneously. Given the present conditions in world markets, the problem of competing entrants needs to be foreseen rather than have several projects become non-viable.

6. The idea of national diversification councils seems a good one. In fact, the functions foreseen for them resemble closely what UNCTAD, with its coordinating function in the commodity field, has been promoting through its pilot project for promoting local processing in selected highly commodity-dependent developing countries. This project, financed by Japan and UNDP, involves cooperation of all relevant international agencies (UNCTAD, FAO, UNIDO, the World Bank and ADB) as well as beneficiary Governments and foreign and local investors. The project has been well received in the beneficiary countries and by the participating agencies. Its methodology, which is attached for reference, could help in defining the modalities for the councils.

7. All examples of successful diversification suggest that it is important to promote a good functional partnership and division of responsibility between government and the local business community and it is well known that African

countries lag significantly in this regard. The diversification councils could provide a vehicle for fostering this partnership. However, UNCTAD would caution against letting the councils have the power to decide on specific projects, as there is a risk that they end up as vehicles of certain interest groups and push for government protection of new industries. Rather, one should emphasize the role of these councils in fostering government/private sector dialogue.

8. The formulation and implementation of diversification programmes would be helped by encouraging, through a series of seminars or expert workshops, exchanges of experiences among countries on policies formulated and implemented to support diversification efforts, including those with an export orientation. At present many countries lack expertise in the implementation of new production and marketing policies. Although it is widely agreed that Governments have to supply or help to finance some diversification-supportive services, it is often not clear which services should be supplied and which ways of supplying them should be chosen. Also, Governments are often involved in monitoring prices and providing information on world prices, supply and demand for specific commodities, as well as in providing market surveys, promotional services, building institutions to coordinate exports, and in presenting the country in international discussions and negotiations. They therefore need a capacity to review their policies and services provided, to interact with the private sector and to revise approaches when needed.

9. Learning from the experiences of others on what worked and what did not could be one of the most valuable ways of ensuring that limited resources are used to maximum effect. This should involve bringing together into a policy workshop a group of countries that are faced with similar problems in trying to diversify their commodity production and exports. It is important that the country-mix in such a workshop is such that it includes countries that have been successful in undertaking diversification efforts and can exchange their experiences with countries which are relatively less experienced in this area. In this connection, it should be mentioned that UNCTAD has some experience in organizing such exchange-of-experience type workshops with a first one being held at Dar es Salaam in November 1993. This was organized by UNCTAD with support from Australia, Israel, the UNCTAD/GATT International Trade Centre (ITC) and UNDP and it focused on policy problems affecting horticultural products, tea and cotton in South and East Africa.

10. UNCTAD welcomes the proposal contained in the FAO report (A/48/335, annex), for the fostering of information and experience on diversification among countries as one of the functions of the diversification fund. Moreover, if one takes the idea of establishing national diversification councils seriously, then such councils would be greatly assisted by such exchanges of experience at the early stage. However, given the many other functions of the fund, this activity appears not to be accorded any priority and therefore one could consider whether it might not be preferable for this activity to be delegated to another body outside of the framework of the fund.

## Appendix

### Schema of implementation steps for project INT/91/006, "A pilot project on commodity processing for selected developing countries"

1. Recruitment by UNCTAD of one consultant (overall coordinator) per country with macroeconomic and general commodity experience as well as experience in the country or region.

2. Designation by Governments of national counterparts.

3. Undertaking of the assessment of the commodity sector and the potential for increased processing on the basis of annotated terms of reference by overall coordinator and national counterparts.

4. Review of report in UNCTAD.

5. Report to be sent to designated focal points in FAO, UNIDO, the World Bank and regional development banks for comments and their suggestions on areas/commodities for project profiles and provision of suggestions on experts for development of these profiles.

6. Recruitment by UNCTAD of experts to develop project profiles.

7. Overall coordinator and experts to visit country to review assessment with government and develop profile ideas.

8. Overall coordinator to come to Geneva to finalize assessment including integration of project profiles.

9. Round-table meetings in country:

   (a) Invitees: FAO, UNIDO, UNDP, UNCTAD, the World Bank, regional development bank, two high-level experts, overall coordinator, national counterparts and other government representatives, potential local and foreign investors;

   (b) Purpose of the meeting:

   (i) To review the commodity sector assessment and project profiles;

   (ii) To decide on the project profiles to be further developed;

   (iii) To indicate in respect of these project profiles possible potential investors (both national and foreign);

   (iv) To make suggestions, if needed, on actions and measures to be taken by the beneficiary country government in support of these projects;

(v) To identify technical assistance needs related to the development of processing in these areas;

(vi) To provide an indication of which projects the World Bank and regional development banks are willing to consider for financing as part of the country's economic development programme and on the follow-up action they would take;

(vii) To consider follow-up action for arranging investments and complementary technical assistance.

10. When appropriate, sending by the UNIDO investment promotion offices of the project profiles to other potential foreign investors and required follow-up action.

11. Recruitment by UNCTAD in consultation with agencies of one expert per country who will be accompanied by an UNCTAD staff member in making contacts with the potential foreign investors with a view to facilitating the starting-up of identified projects.

12. Dissemination of the results of the project.

UNITED NATIONS DEVELOPMENT PROGRAMME

[Original: English]

[17 March 1994]

Regarding the establishment of a diversification fund for African economies, you may recall that the Regional Bureau for Africa of UNDP, through its Director's membership on the Secretary-General's panel of high-level personalities on African development, has had opportunities to make comments and provide inputs during the preparation of the basic document on the need for and feasibility of the establishment of a diversification fund for Africa's commodities (A/48/335 and Add.1 and 2), which was the subject of General Assembly resolution 48/214. The following comments are therefore additional to inputs already provided.

1. The need for African economies to diversify away from a monoculture production system towards more broad-based economies is incontrovertible. However, this should be seen as a long-term development activity which is integrated into the long-term development perspectives of the countries.

2. There is sound justification for a fund that serves as a catalyst to bring focus to diversification needs and one which aims at mobilizing the major socio-economic agents - Governments, private sectors, foreign investors, etc. - to focus on diversification by providing advice, sharing of experiences, setting up pilot schemes, and so forth. UNDP, therefore, supports a diversification facility for African commodities to be lodged within the African Development Bank.

3. The operational modalities of the facility, which proposes the establishment of national diversification councils, may require some rethinking and review with Governments, to ensure that we do not create new institutions to handle activities already adequately addressed through existing institutions. To that end, private sector contributions should be explored in addition to official channels. Given the current overall environment for foreign assistance, the latter would seem to be important to ensure that the fund represents additionality of resources.

ECONOMIC COMMISSION FOR AFRICA

[Original: English]

[18 February 1994]

## I. INTRODUCTION

1. The collapse of Africa's commodity sector is one of the host of adverse effects the continent is confronted with. The declining commodity prices and increasing losses of preference margins resulting from the arrangements by the European Union and the General Agreement on Tariffs and Trade (GATT) are the external dimensions of this crisis.

2. Africa is also facing deep structural problems requiring long-term measures aiming at the effective transformation of the region's commodity sector. These measures include policy reforms and action-oriented programmes to address:

(a) The weak technological base of Africa's commodity sector in general and agriculture in particular;

(b) The overdependence and too large risk exposure of the region resulting from the dependence of individual countries on too limited numbers of commodities (two to three);

(c) The grossly insufficient flows of resources into the sector resulting in important strangulations affecting input factors;

(d) Insufficient linkages between the primary (commodity) sector and the manufacturing sector.

3. We at the Economic Commission for Africa (ECA) have called for the adoption of policies and actions for the strengthening and diversification of production capacities including the commodity development activities in 1989 and earlier. A summary of the policy instruments and measures to this end is appended to this executive position paper and should be read along with it.

4. There is now a general agreement on most of these measures and more specifically on the need for diversification in Africa's commodity sector. There is also universal acceptance of the need for immediate enhanced resource flows into the sector for the financing of project identification, design, development and implementation. This general agreement hinges on

(a) diversification as a way out of the current crisis; (b) the need to set up a financing facility in the form of a diversification fund for project identification, design and promotion; and (c) the need to create the necessary enabling environment for more investments in the commodity sector.

## II. DIVERSIFICATION: WHICH WAY?

5. Should the commodity sector be diversified just for the improvement of Africa's position in traditional external markets and the reduction of Africa's risk exposure or should diversification lead to a commodity sector more integrated in the national economy through increased productivity, strong production capacities and enhanced linkages with the manufacturing subsector?

6. There is an urgent need for all to agree on the concept and contents of commodity diversification and on the spectrum of commodities and activities to be covered if the programmes/projects and the fund are to play a significant role in alleviating Africa's commodity problems.

7. Following are a few characteristics of programmes aiming at diversification with transformation (as required in Africa's case):

(a) Diversification should be a means to:

(i) Reduce the overdependence of African economies on too limited numbers of commodities by spreading their risk exposure to a wider range of commodities with the promotion and development of non-traditionally produced commodities;

(ii) Broaden the utilization spectrum of commodities through their transformation;

(b) Proposals put before the General Assembly and the Secretary-General's panel of high-level personalities on African development have so far been silent on the important subsector of mineral resources. Mineral resources are part of Africa's commodity problems;

(c) There is certainly a need to integrate a productivity dimension in diversification programmes so as to re-establish and enhance Africa's competitiveness and help to mitigate current and forthcoming losses of preference margins due to progressive generalization of trade preferences by the European Union and within GATT;

(d) Diversification efforts should also include, as a central feature, a subregional/regional dimension to help avoid counter-productive duplications (likely to protract over-supply situations) and to promote multinational projects along the lines of one of the objectives of the facility;

(e) The programme and diversification fund should also aim at reducing Africa's external overdependence on commodity exports by providing intersectoral bridges between the primary (commodity) sector and the secondary (manufacturing) sector for the production of intermediate as well as finished products with a

view to contributing to internalized industrialization processes for both local consumption and higher value added exports.

8. In the light of this, there is no gainsaying the fact the projects related to research and development should be given priority in diversification programmes.

## III. INSTITUTIONAL FRAMEWORK FOR COMMODITY DIVERSIFICATION

9. Locating the fund in the African Development Bank is a strategically sound proposal as this will help to involve the Bank from the pre-feasibility stages of projects and ease the Bank's approval of projects for financing under its lending programmes and/or the African Development Fund (ADF). ECA supports this proposal. The rules governing the proposed facility and the decision-making process should nevertheless be autonomously defined and applied.

10. No doubt, national coordinating institutions such as national diversification councils are needed most in the institutional framework for the diversification programme and the diversification fund and should also reflect a multi-country/regional dimension and objectives and take into account current subregional initiatives to harmonize and coordinate agricultural policies and programmes (the Economic Community of West African States, the Economic Community of Central African States and the Preferential Trade Area have programmes of this type). On the mineral resource development front, this coordination is on the agenda of the ECA-sponsored mineral development centres in central, eastern and southern Africa (Central African Mineral Resources Development Centre and Eastern and Southern African Mineral Resources Development Centre). We would therefore suggest that subregional diversification councils be set up and provide forums for discussions on coordination and harmonization and for the identification, design and promotion of multi-country projects.

11. UNIDO, UNCTAD, ITC, FAO and the Common Fund for Commodities, to avoid duplication of efforts between the second window of this Fund and the proposed diversification fund for Africa, should certainly play an important support role in project identification project design and project promotion. However, for the facility to be effective in promoting commodity diversification, it should involve regional technical organizations such as:

(a) The African Regional Centre for Technology in areas such as food technology and energy;

(b) The Central African Mineral Resources Development Centre;

(c) The Eastern and Southern African Mineral Resources Development Centre;

(d) The African Regional Centre for Engineering, Design and Manufacturing;

(e) The African Association of Trade Promotion Organizations for the dissemination of trade information and market development activities (market research, etc.);

(f) Subregional agricultural research centres and networks;

(g) The African Export-Import Bank as well as subregional development banks (West African Development Bank, East African Development Bank and East and Southern African Development Bank) for trade project financing.

12. Coordination of most of these institutions and the regional groupings is currently ECA's responsibility. The Commission could therefore play an important pivotal role as a member of the steering committee of the facility. Coordination between ECA, UNCTAD, FAO and UNIDO is effective through the existence of joint divisions/units between the Commission, FAO, UNCTAD and formerly with UNIDO (to be re-established).

13. The need to involve local capacities cannot be overemphasized as this is the only way to ensure that diversification policies and programmes be home-grown and not externally induced.

## IV. PROMOTION OF AN ENABLING ENVIRONMENT

14. The development of infrastructures and relevant local capacities is indeed an important feature in the required enabling environment.

15. Rebuilding and enhancing African countries' financing capacities is a priority, which could be achieved in two ways:

(a) Debt-diversification swaps both through local currency intermediation and debt-equity swaps. This should be supplemented by important flows of concessional resources and grants into the agricultural sector whose diversification, increased productivity and development require the substantive transformation of its technological base through sizeable concessional agricultural credits to cooperatives and individual farmers (a substantive part going to women for obvious reasons);

(b) Reviewing current monetary and financial policies, more specifically interest rate and exchange rate policies: introducing discriminating rates in favour of diversification/productive activities could help to revitalize and diversify the commodity sector while maintaining current high interest rates in non-productive/speculative sectors in the short and medium run.

16. Policy instruments and measures in the appended summary revolve around these main areas for action and others.

17. The fear of inflationary pressures emerging from debt swap programmes and other concessional flows in favour of diversification programmes is not justified as these flows would help to boost production. Inflationary pressures in Africa result from misallocation of resources (to unproductive activities) rather than from excessive money supply. Concessional flows to commodity diversification, increased productivity development and transformation should therefore not be set a marginal limit for fear of inflationary pressures: marginal, insignificant concessional flows will not help to "heal" the African commodity sector through research and development-led diversification.

## Appendix

### Summary of proposed policy instruments and measures for the strengthening and diversification of production capacity

| Description of policy instruments and measures | Effects for adjustment with transformation |
|---|---|
| 1. Land reforms for better access and entitlement to land for productive use; enhancement of the role of women as agents of change and the modernization of the food production sector. | Increased production and opportunities for gainful employment; poverty alleviation and more equitable income distribution. |
| 2. Devoting at least 20 to 25 per cent of the total public investment to agriculture. | Improved rural infrastructure and agricultural institutions; increased agricultural productivity; expansion of rural employment. |
| 3. Allocation of an increasing share of foreign exchange for imports of vital inputs for agriculture and manufacturing sectors; expansion of agricultural and industrial employment; increased domestic output of essential commodities and avoidance of import strangulation; and increased interlinkages between agriculture and industry. | Satisfaction of critical needs. |
| 4. Sectoral allocation of credit using credit guidelines that would favour the food subsector and the manufacture of essential goods. | Increased production of food and essential manufactured goods; increased gainful employment. |
| 5. Adoption of investment codes and procedures tailored to the promotion and development of small-scale industries. | Better enabling environment with greater involvement of local entrepreneurs. |
| 6. Use of selective nominal interest rates in such a way that interest rates on loans for speculative activities would be greater than the rates on loans for productive activities, and resulting weighted real interest rates for savings would be positive. | Increased mobilization of domestic savings; reduction of speculative activities; shifting resources to productive activities. |

| | | |
|---|---|---|
| 7. | Creation and strengthening of rural financial institutions. | Increased mobilization of rural savings and improved financial intermediation. |
| 8. | Rehabilitation and rationalization of installed productive and infrastructural capacities; and setting up of an effective national maintenance system. | Fuller capacity utilization; economic growth; savings in foreign exchange. |
| 9. | Utilizing the existence of de facto multiple exchange rate systems in a rationalized manner and/or creating and streamlining such a system for purposes of resource transfers, resource mobilization and reversal of capital flight and ensuring availability of essential imports. | Encouragement of capital inflows, especially by nationals working abroad, and discouragement of capital flight; improvement in balance of payments; satisfaction of critical needs. |
| 10. | Creation of a special fund for loans at subsidized interest rates to certain groups of economic operators. | Encouragement of greater productive activity; description of policy instruments and measures; effects for adjustment with transformation. |

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

[Original: English]

[11 February 1994]

1. At this stage, our comments relate to (a) "the need, in developing diversification projects and programmes, to make full and effective use of existing funding mechanisms", and (b) "the need to fill gaps that may exist in funding available for diversification of related activities in Africa". We find that both these issues have been covered to a large extent in the study on the diversification fund for Africa's commodities (A/48/335 and Add.1 and 2).

2. Regarding the need to make full and effective use of existing funding mechanisms, it is important to distinguish two aspects: the need for finance for the pre-investment phase, and the need for finance for the eventual projects.

3. Our argument with regard to the need for finance for the eventual projects is that in general there is no shortage of finance for well-prepared projects; both private finance and official development assistance are available. This finding was the result of extensive consultations with the development banks and is the experience of the Development Department of FAO. It is important to stress here that private African capital should be heavily involved in financing these projects. External lending agencies would also be needed. It would be the task of the facility situated in the African Development Bank to locate sources of funds.

4. As for funding pre-investment activities, our view is that at present there is a gap in the available development assistance for preparing viable diversification projects attractive to investors. The African Project Development Facility provides some assistance in this direction. However, it does not focus on commodity diversification per se and generally deals with rather small projects of individual private entrepreneurs, in sub-Saharan Africa only.

5. We therefore believe that African countries' diversification needs would be best met if a special facility were available for financing the pre-investment phase of commodity diversification projects. The creation of such a facility could provide a necessary focal point for channelling and augmenting assistance in this priority area.

6. Thus our proposal most decidedly agrees with the need to use existing funding mechanisms, but the fact remains that not enough is being done. Paragraph 50 of document A/48/335 puts it thus:

> "The amount spent on external assistance to commodity diversification projects in Africa is less than $1 a head, or 2 per cent of their earnings from the exports of primary products and a tiny fraction of the total external assistance requirements. The present level of financing for diversification projects and programmes in Africa is not high enough, as has been recognized by the international community, which has called for an

expansion of resources to finance diversification projects and programmes (see para. 81 of the Final Act adopted by UNCTAD at its seventh session and para. 7 of General Assembly resolution 45/200), a call reiterated in Africa's common position concerning the report of the Expert Group on African Commodity Problems."

7. As to the need to fill gaps that may exist in funding available for diversification, this is the central message of our report. The existence of the gaps is discussed under "the need to make full and effective use of existing funding mechanisms" above; the need to fill such a gap rests on the need to do something about diversification, as we indicated in the summary of the report:

> "The need for diversification in Africa is compelling. The region relies on too few commodities for its export earnings; exports of these commodities have been stagnant and offer little prospect for growth. In this context, diversification is a logical step to promote development. It would strengthen the commodity sector and foster economic links between various sectors. Diversification can also make a positive contribution to reducing environmental stress and improving the sustainability of production. Finally, by boosting employment and incomes, it can improve the access to food - the most important way of improving food security." (A/48/335, annex)

8. In conclusion, therefore, the points raised in General Assembly resolution 48/214 have been covered in the report, but in face of a request for additional funds it is natural and was expected that the donors would require consultations on the ways and means of achieving these ends. What should be the focus of discussions now is not the need for diversification nor the need for funds to promote diversification but the nature of the institutional arrangements proposed - the type of national level institutions required and a window or facility in the African Development Bank, in which donors would be suitably involved.

## WORLD BANK

[Original: English]

[9 February 1994]

1. With regard to the establishment of a diversification fund for Africa's commodities, we have studied the proposal prepared by FAO (A/48/335, annex) and have taken note of the written comments by the European Community, UNCTAD and others (A/48/335/Add.1, annex), the recommendation of the panel of high-level personalities on African development on the same subject (A/48/335/Add.2, annex), and the relevant portion of the recent General Assembly resolution on the implementation of the United Nations New Agenda for the Development of Africa in the 1990s.

2. Diversification is indeed a challenge for many African countries whose exports are heavily concentrated in a few commodities generally facing unfavourable long-term prospects. Of course, the soundest way of facilitating

the diversification process is to establish the right economic environment for the private sector, especially by addressing the legal regulatory and structural impediments to its operation and expansion. This is recognized in the proposal prepared by FAO; it is also captured in the high-level panel's conclusion that the proposed facility could help, provided this activity is undertaken "in the context of reasonably sound overall economic management" (A/48/335/Add.2, annex). Getting the economic environment right is, by the way the avenue we have chosen to assist the process, although we do finance diversification projects or projects with strong diversification components.

3. Financing for technically and economically sound diversification or studying its feasibility is available not just from us, but from other agencies and bilateral donors as well. General Assembly resolution 48/214 stresses the need to make full and effective use of existing funding mechanisms in developing diversification projects. These mechanisms include, but are not limited to, sources of financing for private sector development such as those of the International Finance Corporation and the Multilateral Investment Guarantee Agency; others are mentioned in the communications by Belgium on behalf of the European Community.

4. We cannot be sure, however, that all parties keen to engage in diversification and all categories of needs are adequately served by existing mechanisms, especially in the case of requests by small and medium-sized African entrepreneurs. We are therefore not opposed to the creation of a special fund housed in the African Development Bank, as proposed, provided that it is kept modest and responds exclusively to private sector needs. The proposal anticipates some of our concerns, expressed also by others, by avoiding the creation of a new agency with a large bureaucracy and by giving the private sector a prominent role in the proposed national diversification councils. However, some further specification and precautionary steps seem in order, even at this early stage, given the importance, in our view, of assuring that the financial resources made available will not be used simply because they are there.

5. It seems particularly important to ensure that all activities of the fund are demand driven, especially and almost exclusively private-sector demand. Contrary to the current proposal, the fund - its small (!) secretariat - should not have the authority to initiate studies, surveys or testing on its own. The World Bank agrees with UNCTAD on the risk that projects on the same commodity for the same market may be pushed in several countries simultaneously. Preventing this through information dissemination is a proper role for the fund's secretariat.

6. It also seems important that the national diversification councils should not have the power to decide on or execute specific pre-investment activities. Their role should be mainly one of facilitating information exchange. UNCTAD is right to emphasize that they should not have the power to "pick winners" and to warn against the risk that they might end up as vehicles for pushing for government protection of new industries under the infant-industry type arguments. While the establishment of councils with a well-delineated role is a good idea, the need to offer them a grant of US$ 500-700,000 each (to cover the expenses) is not apparent and, in any case, such grants should not be automatic.

Making such resources available ex ante may encourage the creation or perpetuation of national diversification councils or unjustified activities beyond what is reasonable.

7. The optimum allocation for such a fund cannot be scientifically established even if one inventoried existing sources carefully. It has to arise, rather, from experience, which points to the need to start modestly - much more modestly than with the US$ 50-75 million proposed (for 3-4 years). A priori, if the principle of preventing the fund from initiating studies, and so forth, on its own were accepted, there is no reason why an amount significantly lower than the lower limit of the proposed range would not be appropriate as a start. In any case, consideration of the size of the fund should be secondary to agreement on its role, mode of operation, and institutional aspects (size of secretariat, composition of outlays, etc.) which are yet to be specified in the appropriate detail.

8. We look forward to receiving the draft background document to be prepared for the intensive consultations of the General Assembly on this subject scheduled for the end of March.

INTERNATIONAL MONETARY FUND

[Original: English]

[24 February 1994]

1. Concerning the diversification of African economies, and specifically the establishment of a diversification fund for Africa's commodities, we have taken a further look at the earlier study alongside the recent discussions in, and the resolution of, the General Assembly relating to the setting up of such a fund.

2. As you know, we agree fully that the diversification of production and exports in African countries is an important policy objective. In brief, we are generally of the view that the major impediments to diversification relate to the domestic policy environments in the countries concerned, and that these can best be addressed through the use of market mechanisms and institutional reform. Accordingly, in our discussions with country authorities we have stressed the importance of macroeconomic stability and the need to create economic environments conducive to private enterprise, including, importantly, providing appropriate price signals, removing structural impediments to diversification, and attracting foreign investment. Once entrepreneurs perceive profit possibilities in new diversification projects, we would expect that existing financing mechanisms would prove largely adequate, including for the pre-investment phase of projects.

3. More generally, we are not convinced that a shortage of foreign financing for viable projects has been a major impediment to export diversification; as you know, the available mechanisms of funding - including under the World Bank, the International Finance Corporation, the Multilateral Investment Guarantee Agency, other multilateral organizations, and official bilateral creditors - have not been fully and effectively utilized. This is particularly true of the

African Development Bank, which only recently opened its private sector window, a large part of which will accommodate export diversification projects. By the same token, we believe that with appropriate economic and structural policies, the available financing mechanisms could support a marked increase in the identification and implementation of diversification projects.

4. At the same time, we recognize that several African countries have financial institutions which are still at an embryonic stage and therefore, even with the appropriate macroeconomic environment, some small and medium-sized private entrepreneurs may have restricted access to financing, especially for initiating feasibility studies. In this respect, there may be a limited role for a special diversification fund, although we would prefer efforts to concentrate on strengthening local financial institutions so that they would be capable of performing the functions foreseen under the diversification fund.

5. If the proposal moves forward, it would be useful to have in mind the potential pitfalls with this approach. In this regard, we are in full agreement with the points raised in the reply of the World Bank dated 9 February 1994. In particular, it is important that the fund's resources are used efficiently to support viable projects - rather than being absorbed by a bureaucracy - and are "demand driven" by exclusively private sector entrepreneurs. It will also be important to avoid duplicating existing ADB lending programmes. I do not think that it would be appropriate for the diversification fund to initiate or finance studies or surveys, in order to ensure that the resources are not used simply because they are available. Nevertheless, there could be an important role for the diversification fund in facilitating the flow of information, and thereby lessening the risks voiced by UNCTAD of concentrating multiple investments in the same commodity.

6. We would support giving the private sector a predominant role in the proposed national diversification councils and would suggest that if such councils are established, they be kept as simple and non-bureaucratic as possible. There is always a risk of uncontrolled growth and expanding powers in such mechanisms. The primary role of a body like the proposed councils should be to improve the flow of information, rather than to act as a gatekeeper or principal on individual investment projects, or to attempt to "pick winners".

7. We look forward to seeing the background documents being prepared for the further consideration of the proposal by the General Assembly.

## UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

[Original: English]

[12 April 1994]

1. In its resolution 48/214, the General Assembly called upon United Nations organs, organizations and programmes to integrate the priorities of the United Nations New Agenda for the Development of Africa in the 1990s in their mandates and to allocate sufficient resources for their operation. The Yaoundé Declaration adopted in December 1993 by the fifth General Conference of the

United Nations Industrial Development Organization (UNIDO), as well as the UNIDO programme for the Industrial Development Decade for Africa, provide a positive response to the resolution, in particular, paragraphs 4 and 25.

2. It is clear that industry has a key role to play in the diversification of the African economies and that there is a need to give additional emphasis to the industrial processing of African agricultural (including forest and fisheries) and mineral resources, as well as to the diversification of production patterns in the food and other agro-based sectors.

3. The Industrial Development Decade for Africa programmes at the national and subregional levels have been designed to address some of the critical issues outlined in the New Agenda, for example, human resource development and capacity-building, upgrading of production systems to ensure, in particular, increased food production and food security and regional and subregional cooperation.

4. The proposal to establish a diversification fund for African commodities is indeed laudable. However such commodities should not be limited to primary products for exports. The proposed fund should also consider new initiatives for industrial processing of raw materials and production of goods where Africa has a competitive advantage.

5. While UNIDO is not a funding agency, it does dispose of some limited resources under its own management, primarily for the provision of technical assistance. In case such a fund is established, UNIDO could consider, under its programme for the Industrial Development Decade for Africa, participating in the fund with some seed money for the implementation of projects related to the processing of raw materials and other industry-related issues within the overall framework of the diversification fund.

## AFRICAN DEVELOPMENT BANK

[Original: English]

[16 February 1994]

1. With reference to General Assembly resolution 48/214 on the implementation of the United Nations New Agenda for the Development of Africa in the 1990s, the African Development Bank (ADB) welcomes the proposal to establish a diversification fund for Africa's commodities, being aware that there are, of course, complementary approaches to this effort. All students of Africa's development prospects agree that the diversification of production and exports must necessarily be an integral part of any strategy for economic recovery and growth. I might add here that the case for diversification has cogently been made in the October 1993 study by FAO, prepared at the request of the Secretary-General (A/48/335, annex).

2. We agree with the observation made in the FAO report that there is a resource gap for the preparation of diversification projects that are attractive to investors. As you may be aware, ADB does provide funding and technical

assistance for the preparation of development projects by its regional member countries, but these necessarily cover the entire project spectrum and are not focused on diversification projects per se. The establishment of a diversification fund and, as important, the establishment of national diversification councils, in line with the recommendations of the FAO report, could thus provide a needed focus and stimulus towards greater national commitment and effort for the preparation of diversification projects.

3. The FAO report has recommended that the fund be administered by ADB, and that the projects prepared by the fund and the national diversification councils follow the modalities of the Bank. From the perspectives of minimizing administrative costs, and of ensuring that the projects prepared under the auspices of the Fund are indeed bankable, these proposals look reasonable to us. Accordingly, the Bank would, in principle, be willing to consider administering the Fund.

4. We, however, believe that, as a first step, it is necessary to obtain a firm commitment from the international community on a "threshold" level of funds - with the goal of eventually meeting the target of US$ 50-75 million, as set out in the FAO report. This will be necessary to allow the Bank to initiate internal consultations within its various organs, with a view to meeting its own internal requirements for setting up the fund. While further discussions will obviously be required to reach a consensus on the appropriate "threshold" level, the point being made is that it would not be worthwhile to set up a special window - and thereby commit the requisite human and other resources - unless there is indeed a firm commitment by the international community to provide adequate resources for the diversification fund.

## COMMON FUND FOR COMMODITIES

[Original: English]

[11 February 1994]

### I. INTRODUCTION

1. The Common Fund for Commodities is an intergovernmental organization focusing on commodity development. The Agreement Establishing the Common Fund for Commodities entered into force in 1989. At present, it has a membership of 104 member States and the European Community.

2. The Common Fund for Commodities (the Fund) was established to serve as a key instrument in attaining the agreed objectives of the Integrated Programme for Commodities as embodied in UNCTAD resolution 93 (IV) of 30 May 1976. b/ Within these broad objectives, the Fund seeks, through its Second Account operations, to improve productivity with respect to specified commodities, to promote diversification (horizontal and vertical) and to expand commodity markets through the development of new end-uses for primary commodities, particularly those of interest to least developed countries; and to enhance benefits to both producers (exporters) and consumers (importers) of commodities.

3. In order to promote the harmonization of global supply and demand for specified commodities and ensure equitable benefits to producers and consumers, the Fund carries out its operations through designated international commodity bodies, intergovernmental bodies including both consumers and producers. At the moment, 21 of such organizations are already designated (two or more will be considered for designation in March 1994 and one more organization is currently applying) and already actively collaborating with the Fund. The Fund has to date approved 19 Second Account-financed operations, of which 13 during 1993, and expects to approve about 10 more projects during 1994. With a current membership of 104, of which 43 are African countries, and with its links to several intergovernmental bodies, such as the United Nations, its regional commissions, UNCTAD, the World Bank and other international institutions, the Fund is the sole international organization exclusively concerned with commodity development issues and commodity financing-related development projects.

## II. RESOURCE ALLOCATION AND OPERATIONS OF THE FUND

4. The operational activities of the Fund were designed to focus on two directions and, accordingly, resources were categorized into two specific accounts, namely, the First Account and the Second Account.

5. The resources of the First Account are to be used for financing projects aiming at commodity price stabilization. In this respect, the financing of international buffer stocks and internationally coordinated national stocks, within the framework of international commodity agreements, had been specified as the instrument to use. The First Account has not yet been activated due to the receding of buffer stocking arrangements in international cooperation on commodities. Currently, the Fund is looking at ways to activate the First Account within an objective of price stabilization and security outside of buffer stock proposals.

6. The resources of the Second Account are to finance measures in the field of commodities, other than stocking, aimed at improving the structural conditions in markets and at enhancing the long-term competitiveness and prospects of particular commodities. The Second Account has been in operation for several years now. Through its Second Account operations the Fund has financed measures including research and development aiming at productivity improvements and market expansion, and measures designed to assist vertical diversification.

7. As the resources of the Second Account are limited, assistance provided by the Fund is meant to serve basically as seed money to generate additional financial resources from public and private sources for the financing of approved projects. In its financing operations, the Fund emphasizes the global impact on commodities of the projects it supports, as against a national focus. This focus makes it unique in international development financing.

## A. Operations of the Fund related to commodity diversification through the Second Account resources

8. The Common Fund for Commodities is already involved in and committed to global and regional issues on commodity development including diversification. A great portion of the resources have been provided particularly for vertical diversification and commodity market expansion. African countries are already major beneficiaries of the Fund's assistance. The provision of additional resources specifically targeted to commodity diversification in Africa will enhance the effort of the Fund in this direction. As a catalyst and active participant in promoting commodity diversification, the Fund will continue to promote, in concert with other international and regional financial institutions, commodity development, including commodity-related diversification activities in Africa. Examples of specific operations of the Fund in commodity diversification which are being promoted and can be expanded in Africa are given below.

### 1. Research aimed at diversification and creation of new end-uses

9. Several research and development projects whose aim is to identify new end-uses either for traditional products or developing new products from commodities or from by-products, traditionally disposed of as waste, have been carefully selected and financed. Among such projects, mention could be made of pilot plants to process cocoa by-products in Ghana and another one for the commercialization of selected cocowood utilization technologies in the Philippines.

10. The goals of the former project are to stimulate remunerative prices for cocoa to raise the earnings of cocoa producers by extending the use of cocoa, and especially its by-products, into new and non-traditional applications. It envisages setting up three medium-capacity plants for collecting and processing cocoa pod husks for animal feed, installing an alcohol distilling plant to process cocoa sweatings, and setting up a medium-sized plant to produce cocoa butter toilet soap. This pilot project integrates both the aspect of meeting local demand and of having prospective longer-term gains in foreign trade as expansion and fuller involvement of the private sector is realized.

11. The cocowood utilization technology for the Philippines aims at promoting cocowood utilization technologies through feasibility studies on the economic, marketing, policy and socio-cultural implications of selected technologies. The project, when completed, is expected to develop appropriate technologies to be used for the exploitation of senile cocowood for manufacturing furniture and other products. Since senile cocowood is normally left to decay on farms generating protection and breeding facilities for different undesirable pests, the output of the project has conservation and environmental protection dimensions, too.

12. Although both of the above projects will be implemented in specific countries, they include global dimensions for commodity development through the

inclusion of dissemination activities, and training of staff from several member countries of the Fund in the new technologies developed.

2. Improvement of quality and promotion of demand

13. Among the major problems that certain commodities of interest to developing countries are facing is the sharp competition from synthetics and substitutes. The Fund has given special consideration to measures which strengthen the competitive positions of commodities facing market shrinkage owing to increased use of synthetics and substitutes. Research and development efforts have been initiated to, inter alia, improve the competitiveness of the products by improving the quality of products, producing intermediate products with special characteristics through innovative technologies to enhance productivity, expand the market to primary commodities, and promote price competitiveness. These measures are needed particularly by those industrial commodities whose importance in terms of demand in international trade is less when compared with the major commodities, but whose importance to low-income developing countries as income earners is, to the contrary, quite significant. Hard fibres such as sisal, jute, coir and abaca may be mentioned as examples in this regard. Two recent projects could be mentioned as examples of action taken: improvement in drying, softening, bleaching, dyeing coir fibre/yarn and in printing coir floor-coverings; and improvement in the physico-chemical properties of jute/kenaf. Both these projects aim at improving the quality and presentability of products of the two fibres, so that these products would be in a better position to compete with other substitutes.

3. Management and optimal use of resources

14. Recognizing the link between environmental issues and commodity production and use, the Fund has given special attention to issues of resource management and sustainable development, particularly concerning specific commodities such as tropical timber and natural rubber as well as fisheries development. Commodities are natural resources and are an important aspect of sustainable development. Efforts are being made to encourage ways by which development of the commodity sector, including diversification, and environmental concerns could be made mutually reinforcing.

15. In this regard, two distinct measures could be given as examples. A project for the development of methods and strategies for sustained management of moist tropical forest in Cameroon is being supported by the Fund in collaboration with other donors. The objective of this project is to appraise the quality of the land and forest for land use planning and forest management and to assess the economic and social impacts of forest land use and short- and long-term impacts of logging and shifting cultivation on the ecological balance with a view to evolving sustainable methods and strategies for forest management.

16. Another example is a project for the treatment of waste at alcohol factories through the recovery of saccharomyces yeast and bio-gas production in a sugar industrial complex in Cuba. The waste of this complex pollutes valuable

land and marine life. The project under implementation aims at reducing the chemical oxygen demand, uses wastes and effluent for animal feed and fertilizer, purifies waste for irrigation and produces bio-gas as an energy source. Both these projects provide valuable replicable methods and technology which would also be of use by other countries, including African least developed countries.

17. Mention should also be made of projects which are financed by the Fund to control disease infestations that often cause heavy losses to crops and sometimes threaten some crop varieties to extinction. Research and development for the identification of improved plant varieties with capacities of multiple disease resistance is supported. This has multiple objectives, including lowering of production cost by reducing the use of chemical treatment, at the same time reducing environmental damage, preventing losses caused by disease and pests and preserving valuable plant varieties from extinction. A case in point is a project for the protection of the Cavendish banana variety from extinction by the black leaf streak disease, also known as the black Sigatoka disease. This project is funded jointly with the World Bank and donors of the Consultation Group on International Agricultural Research.

### B. Expansion of assistance through the use of First Account resources

18. In addition to the above operational activities, the Fund is in the process of studying various options for the activities of the resources of the First Account. These capital resources of the Fund are at present invested, to generate income to finance the administrative costs of the Fund, and are also enhancing the general financial credibility of the Fund. The areas being considered by the Fund for possible assistance, from available resources from the First Account, to developing countries, particularly to the least developed among them, include the access and use of market instruments to minimize their exposure to commodity market risk; and production and supply management schemes for particular commodities incorporating diversification programmes.

19. The options being considered aim at reducing price risks for export commodities as well as major imports, particularly food imports, commodity market operation credit or guarantee schemes for local financing institutions, training in international market operations, and organization of local markets. Providing seed money for production management and diversification programmes to promote investment by financiers in specific sectors in individual countries based on specific factor endowments and market potentials is being considered also.

## III. OBSERVATIONS AND COMMENTS ON THE REPORT

20. The report (A/48/335 and Add.1 and 2) provides the background and rationale for the promotion of commodity diversification in Africa. It has noted the existence of institutions and resources which are already promoting commodity development globally and in Africa. It has identified the gaps which now exist and which can be filled by providing additional resources. While it has rightly advised against setting up a new institution, it was found necessary to

strengthen existing institutions to focus on bridging the gaps identified, using the additional resources to create the necessary synergy in commodity development in Africa. The observations and comments provided below are designed to improve the effectiveness of the operations of the proposed diversification fund and to enhance the objectives set.

## A. Diversification as an element of commodity development

21. The diversification strategy should be conceived within the overall strategy for commodity development in order to ensure an optimal allocation of resources and returns to the countries concerned. Thus, intra-sectoral diversification (vertical diversification) should be addressed within the country's resource constraints and the global/regional market situation. In the situation of many African countries, it may be important to emphasize the inter-sectoral diversification relating to the traditional export crops section and the food commodity sector. Such consideration, taken along with subregional collaboration, will widen the scope for commodity diversification. This approach calls for a re-evaluation of the possible role of national diversification councils and promoting the use of bodies, if possible already existing ones, whose concerns transcend national boundaries.

## B. Global diversification and commodity market

22. The extent to which the African countries would benefit from commodity diversification, particularly horizontal diversification, will depend on the situation in the world market for commodities and the trend in diversification in other countries. There may be a need, therefore, to have a mechanism within the proposed commodity diversification arrangement, to bring global developments in commodities and markets to bear on policy directions and diversification programmes of African countries.

## C. National diversification councils

23. The national diversification council concept as now proposed may grow, unintentionally, into a new operational body. Further, the membership of the councils involving the private sector, many ministries and external agencies may make their operations difficult to manage and limit their effectiveness. The composition of the councils has been conditioned by the large number of functions allocated to them. It may be advisable to streamline their membership and functions. Possibly, a simple council created in the relevant ministry and with membership from related ministries and parastatals and focusing on policy issues related to commodity diversification may be considered. The other functions can be better performed by financing institutions and the private sector.

### D. Financing of national diversification councils

24. It is proposed that the councils be provided with US$ 500,000 to $750,000 as a grant over a three-year period for preparatory activities. Assuming an average allocation of $625,000 and that at least 40 countries will qualify for such funding, a total of $25 million will be allocated to preparatory studies. The councils may not have the capacity to recruit and supervise consultants' work unless they create operational facilities for such services. The provision of external funds will call for the usual audit requirements, a situation which will raise the overhead costs. If council membership and operations are streamlined as proposed above, e.g., within the national development planning board, the costs of the councils will be within the financial capacity of the participating countries and this will make available more funds for operations.

## IV. POSSIBILITIES FOR INVOLVEMENT OF THE COMMON FUND FOR COMMODITIES

25. Considering the ongoing and growing operational activities of the Second Account as well as the perspectives for the use of the resources of the First Account of the Fund, and noting the observations contained in section III above, there is clearly a role for the Common Fund to play in the diversification effort for the commodity sector in Africa.

26. Apart from the fact that the Common Fund will intensify its efforts both within the framework of the Second Account as well as the prospective options in the context of the First Account, to address in particular the needs and concerns of the African countries on a priority basis, the provision of specific, administered resources, with a specific focus on Africa, will enable the Fund to expand its assistance in the diversification programme for Africa. Funds provided will be earmarked mainly for operations as it is anticipated that most of the overhead costs are already borne by the normal administrative budget of the Fund. This proposal does not call for the establishment of a diversification fund for Africa's commodities in the Fund but for an allocation of part of the diversification fund to the Fund.

27. The operational modalities of the Fund involving collaboration between international commodity bodies, intergovernmental groups, international financing institutions, the regional banks and the specialized agencies of the United Nations system put the Fund in a unique place to provide support to an African commodity diversification programme within a framework considering its global production and market situation, and ensuring intersectoral programme coordination. Many international commodity bodies and intergovernmental bodies are short of resources for project preparation and the Fund has only limited resources for allocation to African countries in this respect, considering its global focus. Provision of project preparation facilities coordinated by the Fund may go a long way in promoting a rational diversification programme for Africa.

28. The Fund, through its efforts in research and development, has already focused on developing new end-uses for products, and financing pilot projects for promoting investments in their production and marketing. The Fund's

activities therefore provide necessary pre-investment operations which can serve as a basis for project investment by international and regional financing institutions as well as the private sector. Additional resources will make possible expansion of research and development and pre-investment activities in Africa.

29. Other possible avenues for involving the Fund can be the following:

(a) Should the international community decide to establish a diversification fund for Africa's commodities, the Common Fund would be prepared to consider and propose to its governing bodies that the Fund combine its efforts in the most practical way to optimize the impact of the diversification programme. It would particularly suit the Fund if such diversification activities focus on specific commodities for a specific number of countries taking into account the global market situation and prospects. The Fund would favourably consider co-financing of projects that the diversification fund might bring forward;

(b) Alternatively, to be able to address the pressing needs of the African countries and to set development activities in motion, it may be considered that development institutions and bilateral donors may combine their efforts in a coordinated and structured manner under a central role of an existing focal institution. In doing so, development institutions and bilateral donors could complement their specific assistance to attain a specific diversification goal in a country and/or a group of countries. If this path is followed, the Fund can join other financiers and donors in developing suitable projects and contributing to their financing. In this event, the governing bodies of the Fund would be requested to approve the Fund's involvement in such effort, on a project-by-project basis, or in a programmatic way.

## V. CONCLUSION

30. The Common Fund for Commodities, which has a unique commodity focus and is a repository of commodity knowledge, already serves Africa through its Second Account projects. It can play a useful role as a catalyst for, inter alia, pre-investment action, within the context of the diversification fund for Africa's commodities, at a low overhead cost to the facility. It may consider applying its resources in conjunction with the activities of the diversification fund for Africa's commodities in the most efficient way, in cooperation with other existing development and development finance institutions, bilateral donors and the private sector, including least developed countries' private entrepreneurs.

## Notes

a/ See, for example, UNCTAD, "Analysis of national experiences in horizontal and vertical diversification, including the possibilities for crop substitution" (TD/B/CN.1/14). The conclusions of this study (ibid., paras. 67-70) were supported by Governments during the second session of the Standing Committee on Commodities. For the work programme of the Standing Committee on Commodities in this area, see TD/B/CN.1/L.5, paras. 8 and 15).

b/ See Proceedings of the United Nations Conference on Trade and Development, Fourth Session, vol. I, Report and Annexes (United Nations publication, Sales No. E.76.II.D.10 and corrigendum), part one, sect. A.

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